WAL-MART STORES, INC.

ANNUAL REPORT
FISCAL YEAR ENDED JANUARY 31

1974

CONTENTS

WAL-MART STORES, INC.

FINANCIAL HIGHLIGHTS

	1974	1973	Percent Change
Current Assets	**$45,254,112**	$32,787,057	+ 38.02
Current Liabilities	**$18,121,532**	$15,990,160	+ 13.33
Working Capital	**$27,132,580**	$16,796,897	+ 61.53
Current Ratio	**2.50**	2.05	
Stockholders' Equity	**$30,734,128**	$24,753,623	
Number of Shares Outstanding	**6,542,250**	6,512,950	

FIVE YEAR PROGRESS REPORT

	1970	1971	1972	1973	**1974**
Net Sales	$30,862,659	$44,286,012	$78,014,164	$124,889,141	**$167,560,892**
Income before income taxes	$ 2,198,764	$ 3,170,599	$ 5,569,027	$ 8,917,188	**$ 11,883,754**
Pro forma net income	$ 1,187,764	$ 1,651,599	$ 2,907,354	$ 4,591,469	**$ 6,158,520**
Pro forma net income per share	$.23	$.30	$.47	$.70	**$.93**
Number of stores in operation at the end of the period	32	38	51	64	**78***

**Two Ben Franklin variety stores were sold and four were closed during the year.*

TO OUR STOCKHOLDERS AND WAL-MART ASSOCIATES

Fiscal year 1974 was the most significant in the twenty-nine year history of your Company. Sales and net earnings reached all time highs.

Sales for Company owned departments were $167,561,000 and net earnings were $6,159,000 — both up 34 percent over 1973. Earnings per share advanced to 93 cents from 70 cents for the previous year.

Total sales for our stores, including leased departments (shoes, jewelry, and twenty-six pharmacies) were $182,634,000 for the year.

Some of the highlights for last year were as follows:

We opened twenty new stores in 1974 and expanded and remodeled four stores — Salem, Missouri, 25,000 square feet to 37,000 square feet; Mountain Home, Arkansas, 22,000 square feet to 51,000 square feet; Marshfield, Missouri, a Ben Franklin Family Center of 17,500 square feet converted to a Wal-Mart Store of 29,100 square feet; Rogers, Arkansas, relocated from a 35,000 to a 56,000 square foot store.

In 1974, we rebuilt and opened a 65,000 square foot store in Jonesboro, Arkansas, and a 30,000 square foot store in Berryville, Arkansas. Both had been completely destroyed. Jonesboro was devastated by a tornado in May 1973, and Berryville was destroyed by fire in December 1972.

Total new store space added in 1974 was 881,630 square feet. Through expansion and rebuilding, our store opening teams opened or completely remodeled twenty-five stores. We anticipate that these units will make sizeable contributions to our profits in this current year.

We now have approximately 450 people employed in Bentonville — 220 in our Distribution and Central Marking Centers and 230 in our General Office.

Our Distribution Center personnel did an outstanding job last year. A total of $73,000,000 worth (at cost) of merchandise was shipped to our Wal-Mart stores, an increase of 66 per cent from the preceding year.

Our Data Processing Department also had another year of accomplishment. These are just a few of the programs they completed:

. . . installed a Singer System 10 to communicate with terminals at the stores. This system is presently polling twenty-two stores.

. . . put the Soft Goods Distribution Center "on line" which gives us the ability to review styles and create a shipping manifest.

. . . developed a complete vendor system for our Distribution Center rebuyers.

. . . converted from an IBM 360/20 to an IBM 370/125 computer. This required physically changing all existing programs.

Of the twenty-five stores built or expanded last year, our Construction Department constructed ten, and fifteen stores were constructed by our lessors. During 1974, our Real Estate Department did an excellent job by setting up a sale and lease back program on fifteen store properties (some of which are not yet complete) which will effect a considerable savings per square foot on our occupancy costs in these stores. I'm confident our Company, with its average rental cost of 1.8 percent of sales, is probably one of the lowest of any general merchandise retail chain in America.

I believe the above figures and statistics substantiate the fact that Wal-Mart Stores, Inc. had a record breaking year in 1974.

Now, what's ahead for Wal-Mart in fiscal year 1975?

Our Real Estate and Construction Departments have scheduled twenty-four new stores for 1975 which total approximately 1,000,000 square feet. In addition, Eldon, Missouri, is to be expanded and remodeled from 30,000 to 45,000 square feet. Five other stores are scheduled for remodeling and expansion in late 1974 or early 1975.

New stores scheduled during fiscal year 1975 will be within the 350 mile radius served by our Distribution Center.

A new 150,000 square foot addition to our present distribution system is projected for this year, hopefully to be completed by September 1974. At that time, our total Distribution Center and General Office space will exceed 400,000 square feet.

Another milestone for Wal-Mart was the March 1974 opening of our first Save-Co Building Supply and Home Improvement Center in Mountain Home, Arkansas. This 22,000 square foot unit will be followed by the April opening of a 32,000 square foot unit in Rogers, Arkansas. This is a new division for our Company, and we feel it has great potential for future growth and profits. Further expansion of this division will depend on the results obtained from these first two units.

We will continue our controlled expansion into our 1975 and 1976 fiscal years. At the same time, we will continue to remodel and expand our older stores as needed in order to maintain our dominance and to remain competitive in all our markets. Our older stores have continued to show healthy increases in both sales and profits over last year.

We are projecting fiscal 1975 sales in excess of $225,000,000 with a corresponding increase in our net profits over 1974. To a degree, total sales will be dependent upon the construction schedule of new stores, and it is getting more difficult for us, as well as for our competitors, to hold to a set schedule of construction.

In review, the development of our Company from variety stores in Newport, Arkansas and Versailles, Missouri, to a fifteen variety store chain that led into our Wal-Mart program in the early 1960's, is a remarkable story of achievement and people . . . and therein lies our Wal-Mart "secret".

Wal-Mart is obviously a Company which is concerned about its people, its customers, its suppliers, its communities, and for honesty and integrity of service.

Perhaps the key factor that makes our Company unusual is this quality of total personal concern on the part of our people. This must be listed as our "number one" asset and must be the "number one" reason for Wal-Mart Stores' success.

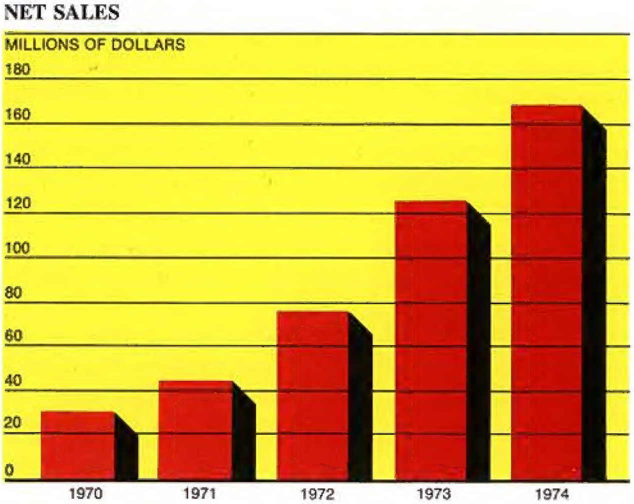
We're all proud of our record to date, and we're confident this is just the beginning of our Wal-Mart story.

The combination of our Company's management and merchandising skills, plus our innovative approach to modern retailing and the strong quality of corporate loyalty, are the ingredients that will continue to earn respect and dedication for Wal-Mart from both its customers and its personnel. We feel we have an unbeatable product mix that will enable us to continue to be the dominant retailer in the Mid-South for years to come.

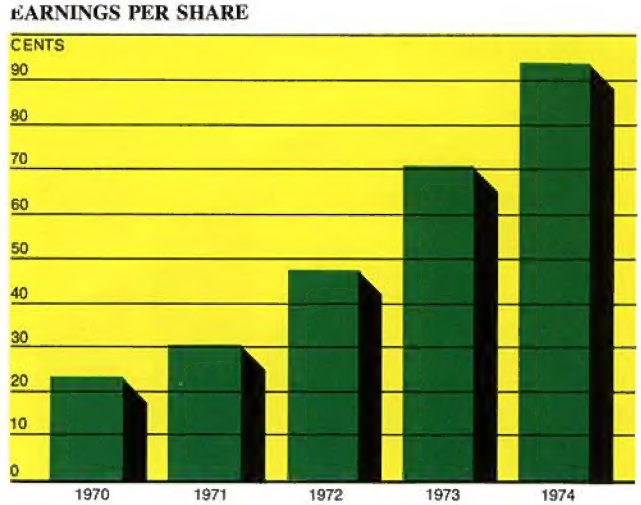
Allow me to take this opportunity to thank our shareholders, suppliers, associates and customers for your valued support of our program and Company. I would also urge any of you to visit us at our headquarters in Bentonville. Nothing would please us more than to have the opportunity to welcome you and show you through our facilities.

Sam M. Walton
Sam M. Walton
President and
Chairman of the Board

NET SALES



EARNINGS PER SHARE



Wal-Mart's 263,800 square foot General Office and Distribution Center are located in Bentonville, Arkansas.

HISTORY OF WAL-MART

Wal-Mart was founded by its President and Chairman, Sam M. Walton, who opened his first Ben Franklin variety store in Newport, Arkansas in 1945. One year later, Mr. Walton was joined by his brother, J. L. "Bud" Walton, now Senior Vice President.

In 1947, Bud Walton opened a Ben Franklin store in Versailles, Missouri. The two brothers went on to assemble a group of fifteen Ben Franklin stores and subsequently developed the concept of larger discount department stores. The Company's first Wal-Mart Discount City store opened in Rogers, Arkansas in 1962.

In October 1970, Wal-Mart Stores, Inc. became a publicly-held corporation and became traded in the over-the-counter market. August 25, 1972, the Company's stock was listed and began trading on the New York Stock Exchange.

NUMBER OF EMPLOYEES

Wal-Mart's highly-skilled receptionists and PBX operators extend warm greetings to hundreds of callers each day.

The Personnel and Public Relations Department works closely with other departments in the growing chain. Well-trained secretaries keep accurate records on all personnel.

PERSONNEL

Wal-Mart's success story has always been one of people who are completely dedicated to the performance of their jobs to the total good of the Company.

The Company's top management has been able to attract and retain competent people to work in all areas of operation. All of the executive officers have had extensive training in the merchandising business, either while employed by Wal-Mart, or as a member of management of another company within the industry.

To provide qualified Store Managers and Assistant Managers, Wal-Mart instituted a formalized training program which exposes participants to all facets of the Company's merchandising system and store operations. Also, special training programs are conducted for Department Heads and other store personnel.

A major reason for Wal-Mart's success must be attributed to the high productivity and stability of its personnel at every level.

Wal-Mart's fashion illustrator plays an important role in the Advertising and Sales Promotion Department.

Four members of management take advantage of a break at the year-end meeting to exchange ideas.

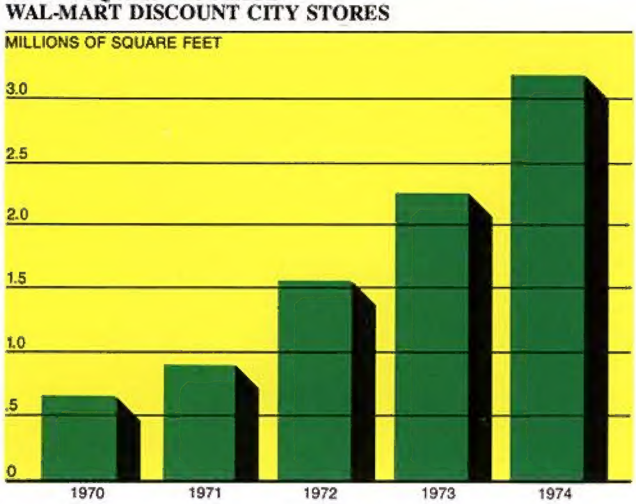
ADVERTISING AND SALES PROMOTION

Throughout the year, Wal-Mart conducts an extensive advertising and promotional program for its retail outlets. The Company programs one to two full-page newspaper ads a week on a company-wide basis with additional advertising during particular seasons such as Christmas and Easter. Single stores use Monday and Friday ads for individual promotions.

Advertising circulars, ordinarily twelve-page broadsheets, are distributed approximately twelve times yearly throughout the trading area. About 1.4 million circulars are mailed, and they take in practically every city and rural delivery within the radius of our chain. Occasionally, television is used for local promotions.

Wal-Mart's specific growth concept is to expand outward from town to town, creating an advertising umbrella under which new stores receive immediate recognition. The Company's advertising costs average less than two percent of sales on a yearly basis.

TOTAL SQUARE FOOTAGE — WAL-MART DISCOUNT CITY STORES



Buyer secretaries serve as valuable links between the stores, the vendors, and the buyers.

MERCHANDISING

The Merchandising Department operates under the philosophy that it represents the Wal-Mart customer in the trade centers; and when it obtains a good buy, Wal-Mart patrons share in the savings. We take great pride in the fact that our efficient buying results in more people being able to afford more of today's conveniences. While retail price is always considered, the quality of items purchased is the first consideration.

In addition to the merchandising staff, Wal-Mart has two warehouse rebuyers whose function is to keep basic merchandise in stock in the Wal-Mart Distribution Center. The experience level of the Merchandising Department ranges from six months to twenty-six years, with the majority of the staff being under forty years of age. It is basically a young department that is energetic and dedicated to excel in the area of buying and supplying Wal-Mart customers with the best value for the lowest possible price.

Wal-Mart trailers are a familiar sight on highways in the six-state area. The chain's 78 stores receive one to two trailer loads per week.

Distribution Center personnel make sure that every store order is filled and shipped accurately.

DISTRIBUTION CENTER

Approximately 55 percent of all merchandise bought by the Company is received and processed at Wal-Mart's 240,000 square foot centrally located Distribution Center in Bentonville, Arkansas.

From the beginning, the Distribution Center was designed for distribution purposes and not for warehousing. The Distribution Center does not carry any item that would not result in at least a 5 percent savings, unless there were other reasons involved. Complete control is maintained over every single item in the warehouse in terms of history and sales. A cycle-inventory of the warehouse is conducted every week by selecting specific departments to compare with file records.

Twenty-four thousand square feet of the Distribution Center is devoted to handling wearing apparel. All of the clothing sold in Wal-Mart stores is processed through the warehouse where it is price ticketed and inspected for quality. Merchandise not meeting Company standards does not reach our stores.

Every store receives one to two trailers a week, and in peak seasons the stores receive as many as two to three trailers a week. Approximately 60 percent of the trucks returning to the Distribution Center from store deliveries are used to backhaul merchandise from suppliers.

In all cases, merchandise brought into the Distribution Center represents cost reductions at warehouse and store levels.

STORE OPERATIONS

Nine District Managers work with the Vice President of Operations. Each District Manager is responsible for overseeing the operation of eight to eleven stores. The District Manager not only communicates weekly, and daily in many instances, with a Store Manager and Assistant Managers, but his frequent visits to the stores allow him to work with the entire store staff. These regular visits have created additional valuable communication ties between store personnel and management. In order to maintain the highest level of customer satisfaction, an open exchange of ideas, suggestions and problems from personnel at all levels is encouraged; and through this, the goal is to place decision-making authority at the lowest practical level.

The Executive Vice President of Finance and Administration and his secretary prepare a report on the Profit Sharing Trust. All Wal-Mart associates become participants in the Plan after two years of full-time continuous employment.

Guaranteed customer satisfaction and everyday discount prices on quality merchandise have been Wal-Mart's policy since the Company was founded.

Regular Executive Committee meetings assure open-line communications and coordination of Company programs.

The enthusiasm of Wal-Mart associates toward their jobs is one of the Company's greatest assets.

Satisfied customers and well-trained associates are Wal-Mart's greatest assets.

STORE PLANNING AND STORE OPENING DEPARTMENT

The Store Planning and Store Opening Department is responsible for completing construction and coordinating all tasks necessary to open each new store. As well, this department handles the remodeling and expanding of existing stores.

Working closely with the planning and opening department is our fixture department. First, a plan with electrical, plumbing and painting specifications is drawn for use in completing construction of the building. Then, a drawing is made showing the placement of every fixture in the store.

The next step in readying a store for opening is the ordering of fixtures, from the shelves and racks on which the merchandise is to be displayed, to the shopping carts and office equipment. Some of these fixtures are made by our own fixture shop in Bentonville.

As soon as the new building is ready to be occupied, this department oversees the crews that set up the fixtures and fill the counters with merchandise. These people have done excellent work in preparing our new stores for opening. After a store is opened, fixture needs, marking machine repair, remodeling projects, and other store maintenance requirements are handled by the Store Planning and Store Opening Department.

The Store Planning and Opening Department personnel seem happy about the blueprint layout of the next Wal-Mart Discount City.

WAL-MART STORES, INC.
STORE LOCATIONS

Arkansas

Bentonville*
Berryville
Blytheville
Booneville
Clarksville
Conway
Fayetteville
Harrison
Hot Springs
Jacksonville
Jonesboro
Mena
Morrilton
Mountain Home
Nashville
Newport
N. Little Rock
Paragould
Pocahontas
Osceola
Rogers
Russellville
Siloam Springs
Springdale (2)
Van Buren
Walnut Ridge
Wynne

Missouri

Ava
Bolivar
Branson
Carthage
Clinton
Columbia
Dexter
Eldon
Farmington
Festus
Fulton
Jefferson City
Joplin
Lebanon
Marshfield
Mexico
Moberly
Monett
Neosho
Nevada
Poplar Bluff
Salem
St. Robert
Sikeston
Springfield
Sullivan
Warrensburg
Waynesville*
West Plains

Oklahoma

Bartlesville
Broken Arrow
Claremore
Hugo
Idabel
Miami
Poteau
Pryor
Sallisaw
Stilwell
Tahlequah
Vinita
Wagoner

Kansas

Coffeyville
Ft. Scott
Junction City
Leavenworth
Manhattan
Pittsburgh

Louisiana

Ruston

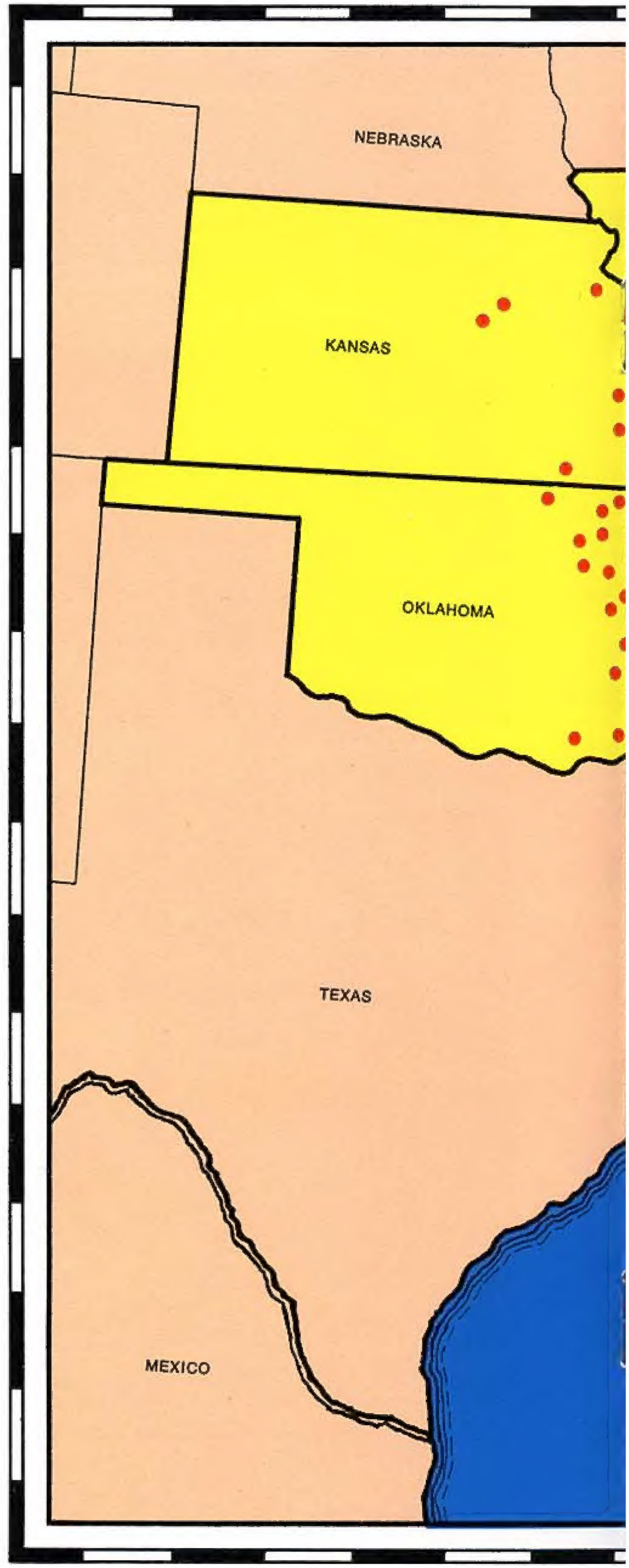
Tennessee

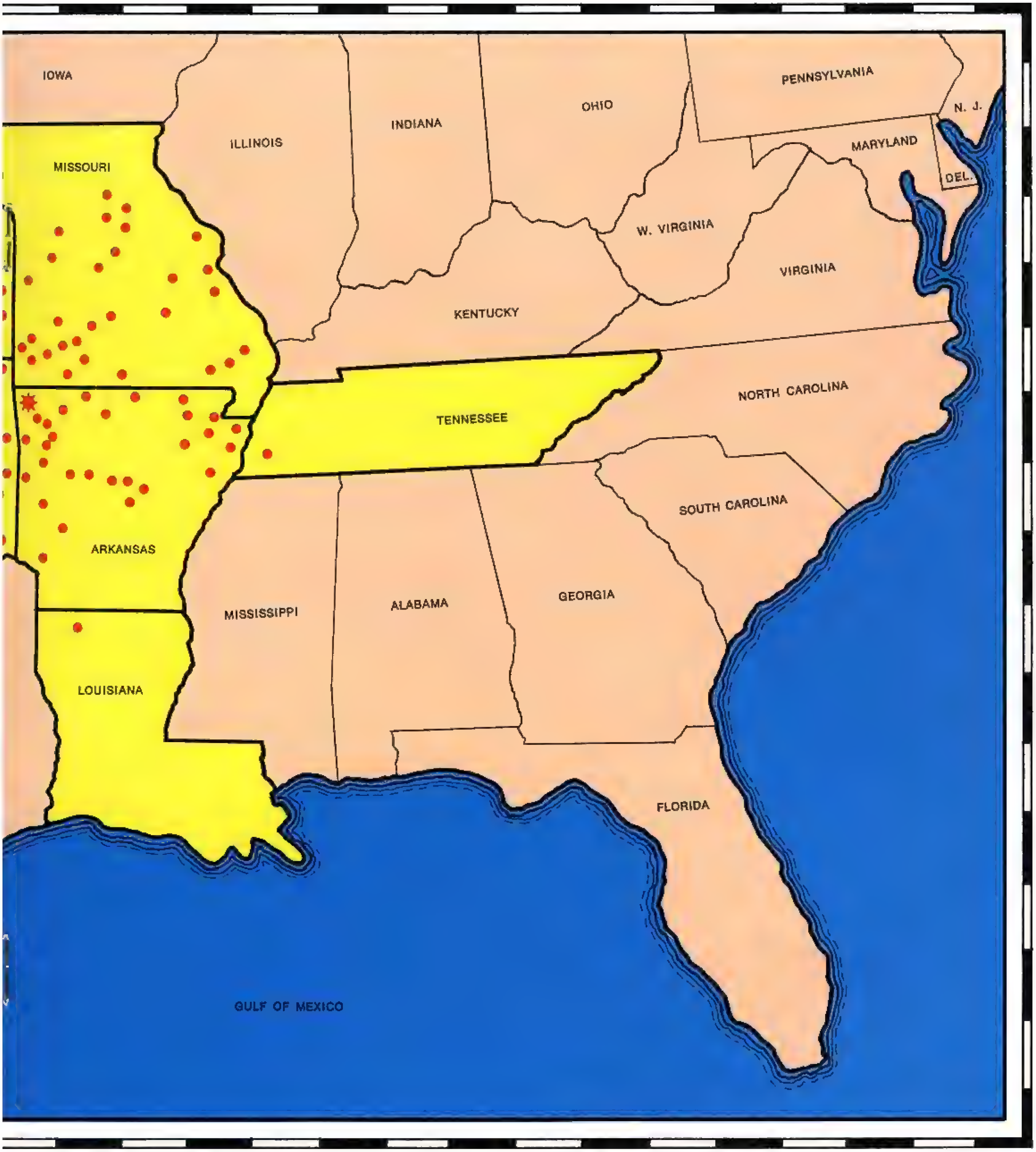
Brownsville

**Walton Family Centers*

General Office and Distribution Center

Store Locations




IOWA
ILLINOIS
INDIANA
OHIO
PENNSYLVANIA
N. J.
MARYLAND
DEL.
MISSOURI
W. VIRGINIA
VIRGINIA
KENTUCKY
TENNESSEE
NORTH CAROLINA
SOUTH CAROLINA
ARKANSAS
MISSISSIPPI
ALABAMA
GEORGIA
LOUISIANA
FLORIDA
GULF OF MEXICO

CONSOLIDATED BALANCE SHEET

ASSETS

	January 31, 1974	January 31, 1973
Current assets:		
Cash (Note 3)	**$ 2,238,263**	$ 2,168,224
Receivables	**1,211,168**	1,114,203
Inventories (Note 2)	**41,470,471**	29,427,119
Prepaid expenses	**334,210**	77,511
TOTAL CURRENT ASSETS	**45,254,112**	32,787,057
Property, plant and equipment, at cost (Note 3):		
Land	**1,477,017**	2,026,338
Buildings and improvements	**5,569,115**	5,503,415
Fixtures and equipment	**9,986,980**	7,172,569
Transportation equipment	**251,541**	225,222
	17,284,653	14,927,544
Less accumulated depreciation	**2,628,146**	1,694,383
Net property, plant and equipment	**14,656,507**	13,233,161
Other assets and deferred charges	**195,027**	220,849
	$60,105,646	$46,241,067

See accompanying notes.

LIABILITIES AND STOCKHOLDERS' EQUITY

	January, 31	
Current liabilities:	**1974**	1973
Notes payable to bank	$ —	$ 3,000,000
Accounts payable	**13,275,531**	8,000,282
Accrued liabilities:		
Salaries	**1,814,872**	1,424,139
Taxes, other than income	**657,139**	478,528
Other	**565,100**	475,634
Accrued federal and state income taxes (Note 6)	**1,347,951**	1,768,864
Long-term debt due within one year (Note 3)	**460,939**	842,713
TOTAL CURRENT LIABILITIES	**18,121,532**	15,990,160
Long-term debt (Note 3)	**10,578,269**	5,065,567
Deferred income taxes	**671,717**	431,717
Commitments and contingencies (Notes 6 and 7)		
Stockholders' equity (Note 4):		
Preferred stock, $.10 par; 500,000 shares authorized, none issued	—	—
Common stock, $.10 par; 11,000,000 shares authorized, 6,542,250 shares issued (1973 — 6,512,950 shares)	**654,225**	651,295
Capital in excess of par value	**13,538,717**	13,393,410
Retained earnings (Note 3)	**16,541,186**	10,708,918
	30,734,128	24,753,623
	$60,105,646	$46,241,067

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

	Years ended January 31, 1974	1973
Number of stores in operation at the end of the year (Note 8)	78	64
Revenues:		
Net sales	$167,560,892	$124,889,141
Rentals from leased departments (Note 5)	1,400,384	1,066,167
Other income — net	404,347	492,426
	169,365,623	126,447,734
Costs and expenses:		
Cost of sales	123,338,618	93,090,235
Operating, selling and general and administrative expenses	33,044,397	23,848,100
Interest and debt expense	1,098,854	592,211
	157,481,869	117,530,546
Income before income taxes	11,883,754	8,917,188
Provision for federal and state income taxes (Note 6):		
Current	5,485,234	4,143,719
Deferred	240,000	182,000
	5,725,234	4,325,719
Net income	6,158,520	4,591,469
Retained earnings, beginning of year	10,708,918	6,117,449
	16,867,438	10,708,918
Dividends paid ($.05 per share in 1974)	326,252	—
Retained earnings, end of year (Note 3)	$ 16,541,186	$ 10,708,918
Net income per share	$.93	$.70

See accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Years ended January 31, 1974	1973
Source of funds:		
Current operations:		
Net income	**$ 6,158,520**	$ 4,591,469
Items not affecting working capital in the current period:		
Depreciation	**1,107,307**	759,248
Amortization of deferred charges	**25,889**	33,443
Deferred income tax	**240,000**	182,000
Total from current operations	**7,531,716**	5,566,160
Retirement of property, plant and equipment	**218,493**	166,756
Property sold under sale and leaseback arrangements	**5,145,125**	2,110,637
Net proceeds from sale of common stock	**148,237**	9,429,099
Additions to long-term debt	**6,228,081**	3,386,972
Reduction in other assets, deferred charges and other	**(67)**	44,657
	19,271,585	20,704,281
Application of funds:		
Additions to property, plant and equipment	**3,523,062**	4,659,775
Property additions acquired, subject to sale and leaseback arrangements	**4,371,209**	4,530,322
Reduction in long-term debt, including changes in current maturities	**715,379**	2,980,112
Dividends paid	**326,252**	—
	8,935,902	12,170,209
Increase in working capital	**$10,335,683**	$ 8,534,072
Changes in components of working capital:		
Increase (decrease) in current assets:		
Cash	**$ 70,039**	$ 163,362
Receivables	**96,965**	679,649
Refundable income taxes	**—**	(150,578)
Inventories	**12,043,352**	10,974,456
Prepaid expenses	**256,699**	51,284
	12,467,055	11,718,173
Increase (decrease) in current liabilities:		
Long-term debt due within one year	**(381,774)**	174,993
Notes payable to banks	**(3,000,000)**	330,000
Accounts payable	**5,275,249**	1,192,770
Accrued liabilities:		
Salaries	**390,733**	487,502
Taxes, other than income	**178,611**	192,695
Other	**89,466**	156,683
Accrued federal and state income taxes	**(420,913)**	649,458
	2,131,372	3,184,101
Increase in working capital	**$10,335,683**	$ 8,534,072

See accompanying notes.

Note 1 — Accounting policies

Consolidation — The consolidated financial statements include the accounts of all subsidiaries.

Inventories — Merchandise inventories in stores are stated at the lower of cost or market as determined by the retail inventory method, and the inventory in the distribution center is stated at the lower of cost (first-in, first-out method) or market.

Pre-opening costs — Costs associated with the opening of new stores are amortized during the first month after the store opening. The costs are carried as prepaid expenses prior to the store opening.

Interest during construction — Interest during the construction of property, plant and equipment is capitalized.

Depreciation — For financial reporting purposes, depreciation is determined on the straight-line basis. For income tax purposes, the Company uses accelerated depreciation.

Earnings per share — Per share amounts are based on average outstanding shares, stock options and warrants. The average stock options and warrants outstanding have been reduced by shares assumed to have been purchased with proceeds from such options and warrants under the treasury stock method.

Note 2 — Inventories

Inventories are comprised of:

	January 31, 1974	January 31, 1973
Stores	$33,713,932	$25,404,168
Distribution center	7,756,539	4,022,951
	$41,470,471	$29,427,119

Note 3 — Notes payable and long-term debt

The Company has a $12,000,000 line of credit with a bank, terminating May 31, 1974, unless extended on a yearly basis. Interest is at the bank's prime rate. Subsequent to January 31, 1974, the Company has borrowed $4,000,000 under the line.

Long-term debt at January 31, 1974 and 1973 consists of the following:

	Due after one year	
	January 31, 1974	January 31, 1973
Revolving bank loans due February, 1975 through January, 1978	$ 5,000,000	$ —
9¾% notes, payable $180,000 annually (plus interest) to April, 1983	1,600,000	1,960,000
9¼% mortgage notes payable $68,822 quarterly (including interest) to June, 1992	2,377,045	1,214,831
8¼% mortgage note, payable $14,563 monthly (including interest) to January, 1988	1,389,514	1,447,027
Equipment purchase contracts, secured by fixtures and equipment, payable monthly with final maturities ranging from February, 1974 to May, 1977	5,946	5,511
5%-7% unsecured notes, maturing at various dates to January, 1981	173,079	295,158
6%-8% mortgage notes, payable monthly (including interest) to October, 1991	32,685	143,040
	$10,578,269	$5,065,567

Annual maturities on long-term debt during the next five years are 1975 — $460,939; 1976 — $2,084,020; 1977 — $2,028,820; 1978 — $2,003,450; and 1979 — $348,975.

The revolving bank loans are under a $6,500,000 line of credit, expiring January 31, 1975, at which time the Company may pay the unpaid balance in 36 monthly installments through January 31, 1978. Interest is at 1% above the bank's prime rate.

The agreement relating to the short-term and long-term bank loan includes certain restrictions on dividends, additional debt, and purchase of assets and contains covenants concerning working capital and ratio of debt to tangible net worth. The maximum borrowings under the lines were $13,000,000. The agreement provides for maintenance of an average compensating balance of 10% of the short-term line plus 10% borrowed under the line and 15% of the long-term line available, regardless of use, plus a commitment fee of ½% of the unused portion of the long-term line.

The agreement relating to the 9¾% notes includes certain restrictions on dividends, additional debts and leases, and sale of assets and contains covenants concerning working capital. The agreement relating to the 9¼% mortgage notes of a subsidiary which are guaranteed by Wal-Mart Stores, Inc. contains certain restrictions on the subsidiary concerning additional debt, business activities, investments and the issuance of its capital stock and requires rental payments by Wal-Mart Stores, Inc. on certain buildings leased from the subsidiary in amounts equal to aggregate note and interest payments.

At January 31, 1974 under the most restrictive of the above agreements retained earnings of $15,617,408 were restricted under these terms.

Note 4 — Stockholders' equity

Of the authorized shares at January 31, 1974, 297,750 shares were reserved including 90,000 shares for warrants expiring April 1, 1985, at $4.125 per share, 147,750 shares for issuance under the Company's qualified stock option plan for employees and 60,000 shares for issuance under the employee stock purchase plan. The options expire five years from the date of grant and may be exercised in four equal annual installments, beginning one year from the date of grant. Further information concerning the options is as follows:

		Option price	
	Shares	Per share	Total
Shares under option:			
January 31, 1973	93,200	$ 4.125-$29.125	$ 863,783
Options granted	60,700	14.75 - 25.00	941,225
Options canceled	(3,200)	12.00 - 25.00	(50,350)
Options exercised	(29,300)	4.125- 20.50	(148,237)
January 31, 1974	121,400		$1,606,421
Shares available for option:			
January 31, 1973	83,850		
January 31, 1974	26,350		

On March 5, 1974 the Company declared a five-cent per share cash dividend on common stock to stockholders of record March 19, 1974, payable April 5, 1974.

Note 5 — Leased department sales

The sales of leased departments as reported by lessees are $15,073,000 and $12,386,000 for 1974 and 1973, respectively.

Note 6 — Provision for income taxes

The provision for income taxes consists of the following amounts:

	1974	1973
Current:		
Federal	$4,961,224	$3,757,434
State	524,010	386,285
Deferred:		
Relating to differences in tax and financial depreciation methods	206,000	151,000
Relating to differences in tax and financial accounting for certain leased fixtures and equipment	34,000	31,000
	$5,725,234	$4,325,719

Investment tax credits are accounted for under the flow-through method and have resulted in reduction of the current federal income tax provisions for 1974 and 1973 by $242,000 and $174,000, respectively.

The Internal Revenue Service has proposed assessments for additional income taxes for the years ended January 31, 1969 through 1972, resulting primarily from disallowance of surtax exemptions and the reallocations of income among the Company and its subsidiaries. The Company is contesting these proposed assessments and, although the ultimate disposition of the matter is undeterminable at this time, management and its legal counsel are of the opinion that any additional taxes which may be finally determined will not have a material adverse effect in the consolidated financial statements.

Note 7 — Long-term lease commitments

The Company and certain of its subsidiaries have leases for stores and transportation equipment. Rentals on noncapitalized financing leases (as defined by the Securities and Exchange Commission) were $1,722,000 in 1974 and $961,000 in 1973. Rentals under all leases were $3,384,000 in 1974 and $2,517,000 in 1973.

The present value of minimum rentals on noncapitalized financing leases of stores was $15,267,000 at January 31, 1974 and $7,790,000 at January 31, 1973. The present value of minimum rentals on other financing leases was $591,000 at January 31, 1974 and $621,000 at January 31, 1973.

The weighted average interest rate used in discounting the leases was 8.25% in 1974 and the rates ranged from 8% to 9%. Certain of the leases provide for additional rentals based on percentages of sales. Such additional rentals amounted to $61,658 in 1974 and $62,664 in 1973. If all financing leases had been capitalized and amortized on a straight-line basis and interest accrued on the basis of the outstanding liability, the effect on net income would have been less than three percent of the average net income for the last three years.

Aggregate minimum annual rentals under noncancelable leases for 1975 through 2003 are as follows:

	Financing leases	All leases
1975	$ 1,898,000	$ 3,800,000
1976	1,863,000	3,697,000
1977	1,795,000	3,603,000
1978	1,754,000	3,496,000
1979	1,721,000	3,394,000
1980/1984	8,326,000	15,970,000
1985/1989	8,220,000	12,016,000
1990/1994	6,545,000	6,640,000
1995/2003	2,614,000	2,614,000
	$34,736,000	$55,230,000

The total lease commitments by type of property are as follows:

Stores	$54,485,000
Transportation equipment	745,000
	$55,230,000

Substantially all of the store leases have renewal options for additional terms of five to fifteen years at the same or lower minimum rentals. In addition, the Company has entered into lease agreements for land or buildings for nineteen future stores at aggregate minimum annual rentals of $1,023,000. Inventory, fixtures and working capital requirements for these stores are estimated to be $12,376,000 in addition to amounts included in the balance sheet.

Note 8 — Number of stores in operation

The 78 stores at January 31, 1974 consisted of 76 Wal-Mart Stores and 2 Family Center Stores whereas the 64 stores at January 31, 1973 consisted of 55 Wal-Mart Stores and 9 Ben Franklin Variety and Family Center Stores.

During 1974 the Company opened 20 stores and closed 6 stores. In 1973, 16 stores were opened and 3 stores were closed.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We have examined the accompanying consolidated balance sheets of Wal-Mart Stores, Inc. and subsidiaries at January 31, 1974 and 1973, and the related consolidated statements of income and retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Wal-Mart Stores, Inc. and subsidiaries at January 31, 1974 and 1973, the consolidated results of operations and changes in consolidated financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Tulsa, Oklahoma
March 21, 1974

Arthur Young & Company

DIRECTORS

*Sam M. Walton, Chairman of the Board and President

*J. L. Walton, Senior Vice President

*Ferold G. Arend, Executive Vice President, Merchandise and Operations

*Ronald Mayer, Executive Vice President, Administration and Finance; and Assistant Secretary

H. L. Remmel, Retired Senior Vice President and Consultant, White, Weld & Co., Inc., New York, New York

James H. Jones, Chairman of the Board and Chief Executive Officer, First Commerce Corporation and its wholly owned bank, First National Bank of Commerce, New Orleans, Louisiana

Jackson T. Stephens, President, Stephens, Inc., Little Rock, Arkansas

*Members of the Executive Committee

OFFICERS

Sam M. Walton, President and Chairman of the Board

J. L. Walton, Senior Vice President

Ferold G. Arend, Executive Vice President, Merchandise and Operations

Ronald Mayer, Executive Vice President, Administration and Finance; and Assistant Secretary

Claude Harris, Vice President, Merchandise

John Hawks, Vice President, Operations

Jack Shewmaker, Vice President, Security and Loss Prevention

James R. Elliott, Jr., Assistant Vice President

Kenneth Folkerts, Treasurer and Assistant Secretary

C. Ray Gash, Controller and Assistant Treasurer

S. Robson Walton, Secretary

COUNSEL

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INDEPENDENT ACCOUNTANTS

Arthur Young & Company
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REGISTRAR & TRANSFER AGENT

Registrar & Transfer Company
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Jersey City, New Jersey 07302

ANNUAL MEETING

May 24, 1974 — 11 A.M.
General Office, 702 SW 8th Street
Bentonville, Arkansas 72712

GENERAL OFFICE

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